



# ***Utah Transit Authority***

*Financial Statements as of and for the Years  
Ended December 31, 2006 and 2005, Audit  
Reports Required Under the Single Audit Act  
Amendments of 1966 for the Year Ended  
December 31, 2006, and Independent  
Auditors' Report*

# UTAH TRANSIT AUTHORITY

## TABLE OF CONTENTS

---

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005:	
Management's Discussion and Analysis	3-8
Comparative Statements of Net Assets	9
Comparative Statements of Revenues, Expenses, and Changes in Net Assets	10
Comparative Statements of Cash Flows	11
Notes to Financial Statements	12-32
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006	33
NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006	34
INDEPENDENT AUDITORS' REPORT OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	35-36
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	37-38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2006	39



Deloitte & Touche LLP  
Suite 1900  
299 South Main Street  
Salt Lake City, UT 84111-1919  
USA

Tel: +1 801 328 4706  
Fax: +1 801 366 7900  
[www.deloitte.com](http://www.deloitte.com)

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Utah Transit Authority:

We have audited the accompanying financial statements of Utah Transit Authority (the "Authority") as of December 31, 2006 and 2005, and for the years then ended listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of Utah Transit Authority as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). This supplementary information is also the responsibility of the management of the Authority. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2006, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2006 audit.

*Deloitte & Touche LLP*

May 10, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Utah Transit Authority's, (the Authority), annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2006 and December 31, 2005.

Following this Management Discussion and Analysis are the basic financial statements of the Authority together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

### FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America, promulgated by the Governmental Accounting Standards Board. The Authority reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

#### Condensed Statements of Net Assets (in thousands of dollars)

	12/31/2006	12/31/2005	Increase (Decrease) From 2005	Percent Increase/ Decrease	12/31/2004
<b>ASSETS:</b>					
Current and other assets	\$149,182	\$132,788	\$16,394	12.35%	\$131,261
Restricted and designated assets	98,739	125,963	(27,224)	-21.61%	7,883
Capital assets	1,026,392	828,339	198,053	23.91%	750,864
Total assets	<u>1,274,313</u>	<u>1,087,090</u>	<u>187,223</u>	<u>17.22%</u>	<u>890,008</u>
<b>LIABILITIES:</b>					
Current liabilities	60,747	42,479	18,268	43.00%	29,906
Long term debt	538,447	420,223	118,224	28.13%	248,797
Total liabilities	<u>599,194</u>	<u>462,702</u>	<u>136,492</u>	<u>29.50%</u>	<u>278,703</u>
<b>NET ASSETS:</b>					
Invested in capital assets net of related debt	550,960	505,893	45,067	8.91%	498,168
Restricted for debt service	4,428	3,712	716	19.29%	1,813
Restricted for Insurance	254	128	126	98.44%	125
Unrestricted	119,477	114,655	4,822	4.21%	111,200
Total net assets	<u>\$675,119</u>	<u>\$624,388</u>	<u>\$50,731</u>	<u>8.12%</u>	<u>\$611,306</u>

During 2006, the strong Utah economy resulted in an increase of 13.7% in the transit sales tax for the Authority and the increase in sales tax receivable at year end is one of the reasons for the \$16 million increase in current assets.

Another significant event in 2006 is the large commuter rail project called Front Runner which is under construction. This large project is the main reason for most of the changes on the Statement of Net Assets from 2005.

Current assets also increased due to the federal funds due from the Full Funding Grant Agreement (FFGA) that the Authority has with the Federal Transit Administration (FTA) for the commuter rail project. The construction costs have been paid out of bond construction funds which resulted in the decrease of \$27 million in restricted assets and the commuter rail costs along with the purchase of \$18.5 million in revenue vehicles accounts for the large increase in capital assets of \$198 million. (See notes to financial statements for more detail). The large construction costs payable at year end resulted in the increase in current liabilities of \$18 million.

The commuter rail project required additional bonding of \$175 million and is reflected in the increase in long term debt of \$118 million. \$50 million of previous debt issues were also retired during 2006. (See notes to financial statements for more detail).

During 2005 capital assets increased by \$77.5 million primarily due to the start up of construction of the commuter rail line from Salt Lake to Ogden. (See notes to financials for more detail).

In connection with the construction of the commuter rail line, \$175 million of bonds were issued and this accounts for the increase of \$171.4 million in long term debt in 2005 over 2004. (See notes to financials for more detail).

At the end of 2005, \$101 million of the bond proceeds had not been expended. These unexpended proceeds and the new bond fund are the reason for the increase of \$118 million of restricted and designated assets.

The \$12.5 million increase in current liabilities at the end of 2005 is due to large construction payables due at year end, interest payable on the new bond and an increase in advance pass sales.

**Condensed Statements of Revenues, Expenses and Change in Net Assets**  
(in thousands of dollars)

	2006	2005	Increase (Decrease) From 2005	Percent Increase/ Decrease	2004
Operating revenues	\$24,627	\$22,240	\$2,387	10.73%	\$21,341
Operating expenses	186,931	176,884	10,047	5.68%	179,747
Excess of operating expenses over operating revenues	(162,304)	(154,644)	\$7,660	4.95%	(158,406)
Non-operating revenues	188,976	155,148	33,828	21.80%	145,106
Non-operating expenses (interest)	(14,324)	(11,454)	\$2,870	25.06%	(9,814)
Gain,(loss) before contributions	12,348	(10,950)	\$23,298	-212.77%	(23,114)
Capital contributions	38,383	24,032	14,351	59.72%	25,497
Change in net assets	50,731	13,082	\$37,649	287.79%	2,383
Total net assets beginning of year	624,388	611,306	13,082	2.14%	608,923
Total net asset end of year	<u>\$675,119</u>	<u>\$624,388</u>	<u>\$50,731</u>	<u>8.12%</u>	<u>\$611,306</u>

**Summary of Revenues for the year ended December 31 :** (in thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease) From 2005</u>	<u>Percent Increase/ Decrease</u>	<u>2004</u>
Operating :					
Passenger revenue	\$23,506	\$21,283	\$2,223	10.4%	\$20,074
Advertising	1,121	957	164	17.1%	1,267
Total operating	<u>24,627</u>	<u>22,240</u>	<u>2,387</u>	<u>10.7%</u>	<u>21,341</u>
Non-operating:					
Sales tax revenues	138,546	121,833	16,713	13.7%	111,982
Federal non capital assistance	31,333	28,466	2,867	10.1%	31,209
Interest income	9,828	4,105	5,723	139.4%	1,293
Other	9,269	744	8,525	1145.8%	622
Total non-operating	<u>188,976</u>	<u>155,148</u>	<u>33,828</u>	<u>21.8%</u>	<u>145,106</u>
Capital contributions	<u>38,383</u>	<u>24,032</u>	<u>14,351</u>	<u>59.7%</u>	<u>25,497</u>
Total Revenues	<u>\$251,986</u>	<u>\$201,420</u>	<u>\$50,566</u>	<u>25.1%</u>	<u>\$191,944</u>

During 2006 passenger revenues increased by \$2.2 million or 10.4% which was due to an increase in passengers carried of 1.6 million or 4.5% and an increase in the base fare from \$1.40 to \$1.50 or 7%. This increase in passengers was mainly in rail service and vanpools. (see ridership comparison)

Sales tax revenues continue to reflect the strong Utah economy with an increase of \$16.7 million or 13.7%.

The increase in federal non capital assistance is due primarily to an increase in federal funds for reimbursement of interest on bonds issued for the commuter rail.

Interest income increased by approximately \$5.7 million as a result of large bond construction fund balances during most of the first part of the year and higher interest rates being earned on investments.

The increase in other revenues is due to a large gain on the sale of surplus real estate held by the Authority but was no longer needed for transit use.

During 2005 passenger revenues increased by approximately \$1.2 million primarily due to an increase in passengers carried of 4.7% which was mainly in rail service and vanpool service. (see ridership comparison) Fares rates also were increased in 2005 from a base fare of \$1.35 to \$1.40 or 3.7%.

During 2005 advertising revenues did not meet expectations as they dropped by 24% from 2004 management selected a new contractor to provide this service.

Sales tax revenues reflect the strong Utah economy with an increase of \$9.85 million or 8.8% from 2004 to 2005.

The decrease in Federal non-capital contributions of approximately \$2.7 million is due to the transition from planning activities for the commuter rail line into the construction phase during 2005.

Interest income increased by approximately \$2.8 million due the unexpended bond funds which increased the cash invested and higher interest rates were received for the investments.

**Summary of Expenses for the year ended December 31:***(in thousands)*

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease) From 2005</u>	<u>Percent Increase/ Decrease</u>	<u>2004</u>
Operating expenses:					
Bus service	\$69,471	\$67,537	\$1,934	2.9%	\$64,089
Rail service	16,346	14,611	1,735	11.9%	14,380
Paratransit service	12,077	11,670	407	3.5%	11,586
Other services	909	866	43	5.0%	728
Operations support	18,056	17,399	657	3.8%	18,270
Administration	19,965	16,948	3,017	17.8%	15,596
Major investment studies	3,301	1,499	1,802	120.2%	7,058
Depreciation	46,806	46,354	452	1.0%	48,040
Total operating expense	<u>186,931</u>	<u>176,884</u>	<u>10,047</u>	<u>5.7%</u>	<u>179,747</u>
Interest expense	<u>14,324</u>	<u>11,454</u>	<u>2,870</u>	<u>25.1%</u>	<u>9,814</u>
Total expenses	<u>\$201,255</u>	<u>\$188,338</u>	<u>\$12,917</u>	<u>6.9%</u>	<u>\$189,561</u>

During 2006 bus service expenses increased by approximately 1.9 million or 2.9% due primarily to a large increase in fuel costs. (the average fuel price went from \$1.89 to \$2.19 per gallon or a 16% increase) This followed an even larger jump in 2005 from 2004 going from an average price of \$1.27 to \$1.89 per gallon, or a 48% increase.

Rail expenses have increased by approximately \$1.7 million due to several factors. Rail service miles are up by 3% over 2005 and the parts cost reflect an increase due to some of the vehicles coming off warranty. Also, in order to be ready for the upcoming commuter rail service, additional staff has been hired to help with the transition.

Administration costs are up by approximately \$3 million or 17.8% due primarily to increased costs for technology development, deployment and support; increased insurance costs, and higher employee recruitment and training costs due to a tight labor market and the Authority's growth.

Planning studies for new proposed light rail lines have increased the major investment studies cost by approximately \$1.8 million or 120% for the year.

Interest expense increased by approximately \$2.8 million due to a new \$175 million bond which was issued for the commuter rail construction project.

During 2005 bus service expenses increased by approximately \$3.4 million or 5.4% due primarily to a large increase in fuel costs. (the average fuel price went from \$1.27 to \$1.89 per gallon or a 48% increase)

During 2005, the \$.87 million decrease in operations support and the \$1.35 million increase in administration costs was primarily due to a reorganization and splitting of some departments from operations support to administration.

The transition from planning type activities to construction of the commuter rail line is reflected in and is responsible for the approximately \$5.6 million or 78% decrease in major investment studies expenses from 2004 to 2005.



Depreciation expense decreased by approximately \$1.7 million or 3.5% due to equipment and computer programs that became fully depreciated and therefore not longer have depreciation expense.

Interest expense increased by approximately \$1.6 million or 16.7% due to the \$175 million bond which was issued in 2005.

#### **Capital Asset Activity:**

During 2006 the Authority expended approximately \$248 million for capital assets. The most significant expenditures were \$226 million for construction of the commuter rail line and purchase of land along the rail right of way. Approximately \$18.2 million was expended for purchase of revenue vehicles and associated parts. An additional \$2 million was expended for the construction of a new light rail station. (Readers wanting additional information should refer to note 4 in the notes to financial statements.)

During 2005 the Authority expended approximately \$124 million for capital assets. The most significant expenditures were \$93 million for construction of the commuter rail line and purchase of land along the rail right of way. Expenditures of approximately \$27 million were for the purchase of revenue vehicles and associated parts. An addition \$1 million was expended on the construction of a new light rail station. (See notes to financial statements.)

#### **Debt Administration:**

During 2006 the Authority's underlying bond rating as reported by Standard and Poor's was raised to "AAA" from "AA" and remained at Aa3 by Moody's.

During 2006 the Authority issued the following bonds:

2006A Series: \$87,500,000

Construction of the commuter rail line.

2006B Series: \$87,500,000

Construction of the commuter rail line.

2006C Series: \$134,650,000

Advanced refunding of \$145,650,000 of the 2002A Series bond for a net present value savings of \$7,539,744

During 2006 the Authority retired the 2002B Series bond for \$50,000,000.

(Readers wanting additional information should refer to Note 8 in the Notes to Financial statements)

During 2005 the Authority issued the following bonds:

2005A Series: \$20,630,000

Advanced refunding of \$21,300,000 of the 1997 Series bond for a net present value savings of \$1,367,537.

2005B Series: \$175,000,000

Construction of the commuter rail line.

(See Notes to Financial statements)

**Authority's significant activities:**

During 2006 the Federal Transit Administration (FTA) submitted the Full Funding Grant Agreement (FFGA) for the commuter rail line to Congress for the required 60 day comment period prior to approval, and in June 2006, the FFGA was awarded. The commuter rail is approximately 60% percent complete with expected start up of service in early 2008.

In 2006 the Authority opened a new light rail station at 9400 South by the South Town exposition hall.

During 2006 the Authority has been doing study work on 4 additional light rail lines and an extension of the commuter rail line south to Utah County. Approval for entering in to Preliminary Engineering for the Mid-Jordan line was submitted to FTA in 2006.

In November 2006 the voters of Salt Lake County and Utah County voted to increase the transit sales tax to help fund the new light rail lines in Salt Lake County and the extension of the commuter rail into Utah county. (See footnote 2F)

During 2005 the Authority commenced the construction of the commuter rail line to Ogden due to open in 2008. The Authority submitted a Full Funding Grant Agreement (FFGA) for the commuter rail line to the Federal Transit Administration (FTA) in August 2005. In April 2006 the FTA submitted the FFGA to Congress for the 60 day comment period prior to expected approval.

The Authority also opened a new light rail station at 900 South in Salt Lake City and has put 10 of the newly acquired Light rail vehicles into service to help handle the large increase in passengers on the light rail line.

The Salt Lake intermodal center was opened in July 2005. This will eventually be a station for the commuter rail line and be connected to the light rail line.

**Ridership Comparison (passenger boardings in thousands)**

	2006	2005	Increase (Decrease) From 2005	Percent Increase/ Decrease	2004
Bus Service	21,102	21,608	(506)	-2.3%	21,740
Rail Service	14,838	12,998	1,840	14.2%	11,453
Paratransit service	495	487	8	1.6%	502
Vanpools	1,344	1,070	274	25.6%	841
Total regular service	37,779	36,163	1,616	4.5%	34,536

Rail ridership in 2006 was up by 14.2% which is being attributed to the large increase in fuel prices.

Vanpool passengers are up by 26% due to an increase in the number of vanpools. The increase in vanpools is due to an ever-increasing demand for this type of service. Many companies and government agencies are subsidizing part or all of the cost of this program and individuals can use pre-tax deductions to pay their costs. Vanpools allow participants to have more personal service, especially in areas where regular bus service may not be adequate for their needs.

Rail ridership in 2005 was up by 13.5% which is also being attributed to the large increase in fuel prices.

Vanpool passengers are up by 27% due to an increase in the number of vanpools.

\*\*\*\*\*

**UTAH TRANSIT AUTHORITY**  
**COMPARATIVE STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2006 and 2005**

	2006	2005
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 77,559,168	\$ 76,444,720
Receivables:		
Sales tax	34,790,403	30,925,657
Federal grants	17,863,006	7,563,102
Other	7,573,608	6,586,383
Total receivables	60,227,017	45,075,142
Parts and supplies inventories	9,723,892	9,655,222
Prepaid expenses	1,124,335	1,069,983
Total current assets	148,634,412	132,245,067
<b>Noncurrent Assets:</b>		
Designated assets for self-insurance-cash and cash equivalents	6,457,526	6,141,886
<b>Restricted assets-cash and cash equivalents:</b>		
Escrow Funds	254,004	128,036
Bond funds	92,027,176	119,693,614
Total restricted assets	92,281,180	119,821,650
Other assets - Prepaid pension	548,097	543,131
<b>Property, facilities and equipment:</b>		
Land and improvements	53,695,588	48,758,179
Right of ways	206,218,143	206,218,143
Facilities	429,376,132	427,310,111
Revenue vehicles	259,059,156	248,980,924
Other property and equipment	98,826,941	91,287,880
Construction in progress	304,337,383	97,264,622
Total property, facilities and equipment	1,351,513,343	1,119,819,859
Less accumulated depreciation and amortization	(325,121,431)	(291,481,067)
Net property, facilities and equipment	1,026,391,912	828,338,792
Total noncurrent assets	1,125,678,715	954,845,459
<b>TOTAL ASSETS</b>	1,274,313,127	1,087,090,526
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts payable-trade	31,107,700	18,842,757
Accrued liabilities, primarily payroll related	18,436,266	16,499,994
Accrued interest	2,261,825	2,542,312
Accrued self-insurance liability	2,806,146	2,704,156
Current term portion of long term debt	6,135,000	4,090,000
Total current liabilities	60,746,937	42,479,219
<b>Long Term Liabilities</b>		
Long term debt	538,447,530	420,223,110
<b>TOTAL LIABILITIES</b>	599,194,467	462,702,329
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	550,959,844	505,892,844
Restricted for debt service	4,427,687	3,712,019
Restricted for insurance	254,004	128,036
Unrestricted	119,477,125	114,655,298
<b>TOTAL NET ASSETS</b>	\$ 675,118,660	\$ 624,388,197

See accompanying notes to financial statements

# UTAH TRANSIT AUTHORITY

## COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years ended December 31, 2006 and 2005

	2006	2005
<b>OPERATING REVENUES:</b>		
Passenger fares	\$ 23,506,417	\$ 21,282,499
Advertising	1,120,687	957,184
Total operating revenues	<u>24,627,104</u>	<u>22,239,683</u>
<b>OPERATING EXPENSES:</b>		
Bus service	69,471,137	67,536,664
Rail service	16,346,071	14,610,796
Paratransit service	12,076,802	11,670,170
Other service	908,646	866,127
Operations support	18,056,133	17,398,728
Administration	19,965,445	16,948,077
Major investment studies	3,301,496	1,499,069
Depreciation		
On assets acquired with Authority equity	15,452,106	13,831,293
On assets acquired with capital contributions	31,353,693	32,522,456
Total operating expenses	<u>186,931,529</u>	<u>176,883,380</u>
Excess of operating expenses over operating revenues	<u>(162,304,425)</u>	<u>(154,643,697)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales tax revenues	138,546,093	121,832,629
Federal preventative maintenance grants	25,013,649	25,349,419
Federal planning grants	6,319,476	3,117,145
Interest income	9,827,487	4,104,985
Other	9,268,901	744,290
Interest expense	(14,323,424)	(11,454,185)
Net non-operating revenues	<u>174,652,182</u>	<u>143,694,283</u>
<b>GAIN (LOSS) BEFORE CONTRIBUTIONS</b>	<u>12,347,757</u>	<u>(10,949,414)</u>
Capital contributions		
Federal Grants capital contributions	37,172,077	23,265,156
Local capital contributions	1,111,922	952,230
Disposal of assets	98,707	(185,362)
Total capital contributions	<u>38,382,706</u>	<u>24,032,024</u>
Increase in Net Assets for the year	50,730,463	13,082,610
Total Net Assets, January 1	<u>624,388,197</u>	<u>611,305,587</u>
<b>TOTAL NET ASSETS, DECEMBER 31</b>	<u>\$ 675,118,660</u>	<u>\$ 624,388,197</u>

See accompanying notes to financial statements

**UTAH TRANSIT AUTHORITY**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Cash flows from operating activities:</b>		
Passenger receipts	\$ 22,524,796	\$ 21,818,761
Advertising receipts	1,068,604	1,116,484
Payments to vendors	(41,430,139)	(35,839,554)
Payments to employees	(69,656,986)	(69,995,626)
Employee benefits paid	(27,878,231)	(26,993,997)
Other receipts (payments)	523,587	(60,962)
Net cash used in operating activities	<u>(114,848,369)</u>	<u>(109,954,894)</u>
<b>Cash flows from noncapital financing activities:</b>		
Sales taxes	134,681,347	118,939,379
Federal preventative maintenance grants	25,013,649	25,349,419
Federal planning assistance grants	6,285,999	4,712,416
Net cash provided by noncapital financing activities	<u>165,980,995</u>	<u>149,001,214</u>
<b>Cash flows from capital and related financing activities:</b>		
Contributions for capital projects		
Federal	26,905,651	50,157,430
Local	1,111,922	952,230
Proceeds from the sale of revenue bonds	323,261,098	197,469,576
Payment of bond principal	(199,740,000)	(25,210,000)
Interest paid on revenue bond	(17,855,589)	(10,032,225)
Purchases of property, facilities and equipment	(232,908,489)	(114,984,716)
Proceeds from the sale of property	12,206,174	404,767
Net cash provided (used) in capital and related financing activities	<u>(87,019,233)</u>	<u>98,757,062</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	9,776,225	3,669,908
Net increase (decrease) in cash and cash equivalents	<u>(26,110,382)</u>	<u>141,473,290</u>
Cash and cash equivalents at beginning of year	202,408,256	60,934,966
Cash and cash equivalents at end of year	<u>\$ 176,297,874</u>	<u>\$ 202,408,256</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (162,304,425)	\$ (154,643,697)
Adjustments to reconcile excess of operating expenses over operating revenues to net cash used in operating activities		
Depreciation	46,805,799	46,353,749
Other revenues	457,368	638,191
Changes in assets and liabilities:		
Receivables	(935,963)	(1,736,306)
Parts and supplies inventories	(141,721)	(1,657,742)
Prepaid expenses	(59,318)	(11,094)
Accounts payable - trade	(976,676)	(676,035)
Accrued expenses	2,306,567	1,778,040
Net cash used in operating activities	<u>\$ (114,848,369)</u>	<u>\$ (109,954,894)</u>

At December 31, 2006 and December 2005, accounts payable included \$27,210,038 and \$11,768,419 respectively, related to purchases of property and equipment.

See accompanying notes to financial statements

**Utah Transit Authority**  
**Notes to Financial Statements**  
**Years Ended December 31, 2006 and 2005**

**1. Description of Authority Operations and Definition of the Entity**

**A) Organization**

The Utah Transit Authority ("the Authority") was incorporated on March 3, 1970, under authority of the Utah Public Transit District Act of 1969 for the purpose of providing a public mass transportation system for Utah communities.

The Authority operates in Salt Lake, Davis, and Weber Counties, the cities of Provo, Orem, American Fork, Lehi, Lindon, Pleasant Grove, Springville, Alpine, Highland, Mapleton, Payson, Salem, Spanish Fork, the town of Cedar Hills in Utah County and that part of Utah County in the unincorporated area of Provo Canyon, the cities of Tooele and Grantsville in Tooele County and that part of Tooele County comprising the unincorporated areas of Erda, Lakepoint, Stansbury Park, and Lincoln and the cities of Brigham City, Willard, and Perry in Box Elder County.

The Authority's operations include bus service, paratransit service for the transit disabled, rideshare and van pool programs systemwide with light rail service in Salt Lake County.

The Authority is governed by a 15 member Board of Trustees which is the legislative body of the Authority and determines Authority policy. The members of the Board of Trustees are appointed by each county municipality or combination of municipalities annexed to the Authority. In addition, one ex-officio Trustee is appointed by the State Transportation Commission.

**B) Reporting Entity**

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), *The Financial Reporting Entity* and Statement No. 39 of the GASB *Determining whether certain organizations are component units* - an amendment of GASB Statement No. 14. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and No. 39, the Authority has no component units nor is it considered a component unit of any municipality or government. The Authority is, however, considered to be a related organization by virtue of the fact that the Board of Trustees is appointed by the municipalities.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor are any municipalities accountable for the Authority. Additionally, the Authority has considered the provisions of GASB No. 39 which follows the concept of economic independence. The Authority does not raise or hold economic resources for the direct benefit of a governmental unit and third party governmental units do not have the ability to access economic resources held by the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Utah Code.

**2. Summary of Significant Accounting Policies**

**A) Basis of Accounting**

The Authority reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method revenues are recognized when they are earned and expenses are recognized when they are incurred.

**B) Standards for Reporting Purposes**

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and only those Financial Accounting Standards Board pronouncements issued prior to November 30, 1989 in accordance with GASB Statement No. 20.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**C) Federal Planning Assistance and Preventative Maintenance Grants**

Federal planning assistance grants received from the Federal Transit Administration (the "FTA") and preventative maintenance grants are recognized as revenue and receivable during the period in which the related expenses are incurred and eligibility requirements are met. With the passage of the Transportation Equity Act for the twenty-first Century, (TEA21), FTA now allows capital grant funds to be used for preventative maintenance activities.

**D) Federal Grants for Capital Expenditures**

The U.S. Department of Transportation, through contracts between the Authority and the FTA, provides Federal funds of 50% to 93% of the cost of property and equipment acquired by the Authority through federal grants. Grant funds for capital expenditures are earned and recorded as Capital Contribution Revenue when the capital expenditures are made and eligibility requirements are met.

**E) Classification of Revenue and Expenses**

**Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions such as passenger revenues and advertising revenues.

**Operating Expense:** Payments to suppliers and to employees and on behalf of employees and all payments that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities.

**Non-operating revenues:** Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That use Proprietary Fund Accounting," and GASB Statement No. 34. Examples of non-operating revenues would be sales tax revenues, federal grants and investment income.

**Non-operating expenses:** Payments that result from transactions defined as capital and related financing, non-capital financing, or investing activities.

F) Sales Tax Revenues

As approved by the voters in serviced communities, sales tax for transit is collected in these communities to provide the Authority with funds for mass transit purposes. Funds are utilized for operations and for the local share of capital expenditures. Sales tax revenues are accrued as a revenue and receivable for the month in which the sales take place.

Local Option Sales Tax:	
Salt Lake County	.4375%
Davis and Weber Counties	.50%
Utah, Box Elder, and Tooele Counties	.25%

In November 2006, Salt Lake County and Utah County voters approved additional sales tax to fund transit projects. The new transit sales tax rates for these counties effective April 1, 2007 are as follows.

Salt Lake County	0.62125%
Utah County	0.48%

\*(see note 10: subsequent events)

G) Cash and Cash Equivalents

Cash equivalents include amounts invested in a repurchase agreement, a Certificate of Deposit and the Utah Public Treasurers' Investment Fund, including restricted and designated cash equivalents. The Authority considers short term investments with an original maturity of 3 months or less to be cash equivalents. (Note 3)

H) Receivables

Receivables consist primarily of amounts due to the Authority from sales tax collections, federal grants, pass sales, and investment income. Management does not believe any credit risk exists related to these receivables.

I) Parts and Supplies Inventories

Parts and supplies inventories are stated at the lower of cost (using the moving average cost method) or market. Inventories generally consist of fuel, lube oil, antifreeze, and repair parts held for consumption. Inventories are expensed as used.

J) Property, Facilities and Equipment

Property, facilities and equipment are stated at historical cost. Maintenance and repair expenditures, which substantially improve or extend the useful life of property, are capitalized. Routine maintenance and repair are expensed as incurred. Property, facilities and equipment are capitalized if they have individual costs of at least \$5,000 and a useful life of over one year.

Except for sales of assets in which the unit fair market value is less than \$5,000, proceeds from the sale of property, facilities and equipment purchased with funds provided by Federal grants for capital expenditures are remitted to the FTA on the same percentage basis that such funds were provided by grant contracts with the FTA.



Depreciation is calculated using the straight line method over the established useful lives of individual assets as follows:

Land & Rights of way	Not depreciated
Facilities & Improvements	10 - 40 years
Revenue Vehicles	7 - 20 years
Other Property and Equipment	3 - 5 years

Depreciation on the portion of capital assets funded by Capital Contribution Revenue is calculated separately. Total depreciation is recorded as an expense for calculating operating expenses.

Interest is capitalized when incurred in connection with the financing of construction projects. For the years ended December 31, 2006 and 2005 respectively, the Authority capitalized \$5,216,011 and \$703,956 in connection with construction of the rail projects.

K) Compensated Absences

Vacation pay is accrued and charged to expense as earned. Sick pay benefits are accrued as vested by Authority employees.

L) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; environmental matters; worker's compensation self insurance; damage to property and injuries to passengers and other individuals resulting from accidents and errors and omissions.

Under the Utah Governmental Immunity Act, the maximum statutory liability in any one accident is \$2,000,000. The Authority is self-insured for amounts under this limit. The Authority has Railroad Liability Coverage of \$15 million with \$3 million of risk retention. The Authority is self-insured for worker's compensation up to the amount of \$300,000 per incident and has excess insurance for claims over this amount. The Authority has insurance for errors and omissions and damage to property in excess of \$100,000. The Authority has insurance or retains the risk depending on what is in the Authority's best interest for all other matters. There has been no significant reduction in insurance coverage or settlements in excess of insurance coverage for the last three years.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. (Note 6)

M) Net Assets

The Authority's Net Assets are classified as follows:

***"Invested in capital assets, net of related debt:"*** This component of net assets consists of the Authority's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

***"Restricted for debt service:"*** This component of net assets consists of that portion of net assets that is restricted by debt covenants for debt service.

***"Restricted for insurance:"*** This component of net assets consists of that portion of net assets that is restricted as collateral for insurance.

***"Unrestricted:"*** This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

N) Budgetary and Accounting Controls

The Authority's annual budget is approved by the Board of Trustees as provided for by law. Operating and non-operating revenues and expenditures are budgeted on the accrual basis except depreciation. Capital expenditures and grant reimbursements are budgeted on a project basis. For multi-year projects, each year the expected expenditures for that year as well as related grant reimbursements are re-budgeted.

The Authority adopts its annual budget in December of the preceding fiscal year based on recommendations of staff and the Board Planning and Development Committee.

The first step in developing the Authority's budget is a review of the Transit Development Program and Long Range Financial Plan. This plan then acts as a focus for the development of programs and objectives. Concurrent with the development of programs and objectives, revenues for the coming year are estimated. The estimates of the coming year's revenues are then used as a guide for the Authority to determine the amount of change in service to be provided in the following year. Once the level of service for the coming year is determined, each manager develops a departmental budget.

The departmental budgets are then combined to form a preliminary budget request.

The Executive staff reviews the programs, objectives and requests to balance the total budget with the project revenues and service requirements and priorities. Once the preliminary budget is balanced, the Board of Trustees' Planning and Development Committee reviews the budget request.

Within 30 days after the tentative budget is approved by the Board, and at least 30 days before the Board adopts its final budget, the Board shall send a copy of the tentative budget, a signature sheet, and notice of the time and place for a budget hearing to the chief administrative officers and legislative bodies of each municipality and unincorporated county area within the district of the Authority.

Within 30 days after it is approved by the Board and at least 30 days before the Board adopts its final budget, the Board shall send a copy of the tentative budget to the governor and the Legislature for examination and comment.

Before the first day of each fiscal year, the Board shall adopt the final budget by an affirmative vote of a majority of all the trustees. Copies of the final budget shall be filed in the office of the Authority. If for any reason the Board shall not have adopted the final budget on or before the first day of any fiscal year, the tentative budget for such year, if approved by formal action of the Board, shall be deemed to be in effect for such fiscal year until the final budget for such fiscal year is adopted.

The Board may, by an affirmative vote of a majority of all trustees, adopt an amended final budget when reasonable and necessary, subject to any contractual conditions or requirements existing at the time the need for such amendment arises.

Individual department budgets are monitored for authorized expenditures on a department-total rather than department line-item basis.

The Board must approve all increases or decreases to the net operating expense line, total capital budget line and total operating revenue line of the Authority's operating and capital budgets.

The Authority's budgetary process follows Section 17A-1, Part 5, of the Utah Code Annotated, as amended. The annual budget is submitted to the State Auditor's Office within 30 days of adoption.

# 2006 Statement of Actual Revenues and Expenses Compared to Budget

REVENUES	ACTUAL	BUDGET	VARIANCE
PASSENGER REVENUE	23,506,417	21,746,660	1,759,757
ADVERTISING	1,120,687	1,465,896	(345,209)
SALES TAX	138,546,093	116,684,112	21,861,981
FEDERAL NON-CAPITAL ASSISTANCE	31,333,125	24,428,000	6,905,125
INVESTMENT INCOME	9,827,487	1,625,514	8,201,973
OTHER INCOME	9,268,901	735,005	8,533,896
<b>TOTAL REVENUES</b>	<b>213,602,710</b>	<b>166,685,187</b>	<b>46,917,523</b>
 OPERATING EXPENSES	 ACTUAL	 BUDGET	 VARIANCE
BUS SERVICES	69,471,137	71,473,601	2,002,464
RAIL SERVICES	16,346,071	16,917,107	571,036
PARATRANSIT SERVICES	12,076,802	13,330,048	1,253,246
OTHER SERVICES	908,646	788,930	(119,716)
OPERATIONS SUPPORT	18,056,133	19,018,637	962,504
ADMINISTRATION (including interest)	34,288,869	36,705,824	2,416,955
MAJOR INVESTMENT STUDIES	3,301,496	3,378,911	77,415
<b>TOTAL OPERATING EXPENSES</b>	<b>154,449,154</b>	<b>161,613,058</b>	<b>7,163,904</b>
 CAPITAL EXPENSES	 ACTUAL	 BUDGET	 VARIANCE
REVENUE VEHICLES	17,340,878	15,451,000	(1,889,878)
INFORMATION AND COMMUNICATION SYSTEMS	3,773,352	6,997,837	3,224,485
FACILITIES, BUS MAINTENANCE & OFFICE EQUIP.	4,131,218	4,800,000	668,782
MAJOR STRATEGIC PROJECTS	6,366,990	34,021,503	27,654,513
TRAX & COMMUTER RAIL	216,737,670	242,739,955	26,002,285
<b>TOTAL CAPITAL EXPENSES</b>	<b>248,350,108</b>	<b>304,010,295</b>	<b>55,660,187</b>
 SOURCE OF FUNDS			
CAPITAL GRANTS	27,287,303	33,791,434	(6,504,131)
LOCAL MATCH INCLUDING FINANCING	218,353,644	259,501,791	(41,148,147)
CONTRIBUTED CAPITAL	2,709,161	10,717,070	(8,007,909)
<b>TOTAL SOURCE OF FUNDS</b>	<b>248,350,108</b>	<b>304,010,295</b>	<b>(55,660,187)</b>

Note: Depreciation expense is not a budgeted item.

O) Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform them to the 2006 financial statement presentation.

3. **Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments are carried at fair value and consist of the following at December 31:

Cash and Cash Equivalents:	<u>2006</u>	<u>2005</u>
Demand Deposits	\$ (18,562,571)	\$ (1,909,061)
Repurchase Agreement	22,214,120	6,598,513
Utah Public Treasurers' Investment Fund	73,760,313	71,627,822
Other Cash	147,306	127,446
Total	<u>77,559,168</u>	<u>76,444,720</u>
Certificate of Deposit - Escrow Fund Restricted	131,813	128,036
Utah Public Treasurers' Investment Fund:		
Self-insurance - designated	6,457,526	6,141,886
Bond funds - restricted	92,027,176	119,693,614
Escrow funds - restricted	<u>122,191</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 176,297,874</u>	<u>\$ 202,408,256</u>

The Authority is required to set up certain accounts in connection with the issuance of bonds which are restricted as to their use per the bond covenants. Investments restricted for self insurance are restricted internally by the Board of Trustees and have no outside restrictions.

Deposits

Deposits and investments for the Authority are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Authority's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Authority to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

At December 31, 2006 and 2005 the balances in the Authority's bank demand deposit accounts and certificate of deposit accounts according to the bank statements totaled approximately \$241,813 and \$238,000 respectively of which \$100,000 were covered by Federal depository insurance. The difference between this balance and the amount recorded in the financial statements is primarily due to outstanding checks.

#### B. Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Authority's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The Authority is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the years ended December 31, 2006 and 2005 the Authority had investments of \$172,245,015 and \$197,463,322 respectively with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

#### C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the fund to be invested.

### 4. Property, Facilities and Equipment

Construction in Progress of \$304,337,383 and \$97,264,622 at December 31, 2006 and 2005, respectively, consists of costs incurred in connection with the Authority's rail projects. These costs consist principally of engineering, design and construction work associated with obtaining the right-of-way and construction of the projects.

	Beginning Balance 12/31/2005	Increases	Transfers	Decreases	Ending Balance 12/1/2006
<b>Capital assets not being depreciated:</b>					
Land	\$ 41,544,695	\$ 8,211,933	\$ 2,500	\$ (3,277,024)	\$ 46,482,104
Rights of Way	206,218,143	-	-	-	206,218,143
Construction in progress	97,264,622	219,254,000	(12,181,239)	-	304,337,383
Total capital assets not being depreciated	345,027,460	227,465,933	(12,178,739)	(3,277,024)	557,037,630
<b>Other capital assets:</b>					
Facilities	427,310,111	609,827	2,350,432	(894,238)	429,376,132
Revenue Vehicles	248,980,924	17,219,675	1,409	(7,142,852)	259,059,156
Other property and equipment	91,287,880	3,054,674	9,826,898	(5,342,511)	98,826,941
Land improvements	7,213,484	-	-	-	7,213,484
Total other capital assets	774,792,399	20,884,176	12,178,739	(13,379,601)	794,475,713
<b>Less accumulated depreciation for:</b>					
Facilities	(101,774,920)	(20,700,764)	-	831,997	(121,643,687)
Revenue Vehicles	(112,262,219)	(16,974,050)	-	6,990,927	(122,245,342)
Other property and equipment	(70,237,793)	(9,125,454)	-	5,342,511	(74,020,736)
Land improvements	(7,206,135)	(5,531)	-	-	(7,211,666)
Total accumulated depreciation	(291,481,067)	(46,805,799)	-	13,165,435	(325,121,431)
Other capital assets, net	483,311,332	(25,921,623)	12,178,739	(214,166)	469,354,282
<b>Total capital assets, net</b>	<b>\$ 828,338,792</b>	<b>\$ 201,544,310</b>	<b>\$ -</b>	<b>\$ (3,491,190)</b>	<b>\$ 1,026,391,912</b>

	Beginning Balance 12/31/2004	Increases	Transfers	Decreases	Ending Balance 12/1/2005
<b>Capital assets not being depreciated:</b>					
Land	\$ 35,606,371	\$ 6,204,468	\$ -	\$ (266,144)	\$ 41,544,695
Rights of Way	206,007,055	211,088	-	-	206,218,143
Construction in progress	16,192,737	87,236,426	(6,164,541)	-	97,264,622
Total capital assets not being depreciated	257,806,163	93,651,982	(6,164,541)	(266,144)	345,027,460
<b>Other capital assets:</b>					
Facilities	420,840,243	1,984,666	4,519,541	(34,339)	427,310,111
Revenue Vehicles	234,592,384	21,002,851	71,742	(6,686,053)	248,980,924
Other property and equipment	83,315,064	7,561,258	1,573,258	(1,161,700)	91,287,880
Land improvements	7,213,484	-	-	-	7,213,484
Total other capital assets	745,961,175	30,548,775	6,164,541	(7,882,092)	774,792,399
<b>Less accumulated depreciation for:</b>					
Facilities	(81,161,270)	(20,647,989)	-	34,339	(101,774,920)
Revenue Vehicles	(102,204,533)	(16,637,970)	-	6,580,284	(112,262,219)
Other property and equipment	(62,336,574)	(9,062,259)	-	1,161,040	(70,237,793)
Land improvements	(7,200,603)	(5,532)	-	-	(7,206,135)
Total accumulated depreciation	(252,902,980)	(46,353,750)	-	7,775,663	(291,481,067)
Other capital assets, net	493,058,195	(15,804,975)	6,164,541	(106,429)	483,311,332
<b>Total capital assets, net</b>	<b>\$ 750,864,358</b>	<b>\$ 77,847,007</b>	<b>\$ -</b>	<b>\$ (372,573)</b>	<b>\$ 828,338,792</b>

## 5. Federal Financial Assistance

The Authority receives a portion of its funding from Federal preventative maintenance grants, which totaled \$25,013,649 and \$25,349,419 for the years ended December 2006 and 2005 respectively.

The Authority had grants for capital expenditures authorized but where eligibility requirements were not met yet amounted to \$14,065,800 at December 31, 2006 which are not reflected in the accompanying financial statements. The Authority will be required to provide matching funds of 7% to 50%, depending on grant contracts, totaling \$1,983,048 related to these grants.

## 6. Self Insurance - Claims Liability

Changes in the accrued claims liability in 2006 and 2005 were:

	Beginning-of- Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2006	\$2,704,156	\$2,393,432	\$2,291,442	\$2,806,146
2005	\$2,107,886	\$2,418,004	\$1,821,734	\$2,704,156

Based on past historical information, estimated Incurred But Not Reported (I.B.N.R.) claims were included in the year-end accrued liabilities in the amount of:

	<u>2006</u>	<u>2005</u>
Worker's Compensation	\$ 220,000	\$ 217,050
Auto and General Liability	315,000	303,500
Environmental	<u>150,000</u>	<u>100,049</u>
Total I.B.N.R.	<u>\$ 685,000</u>	<u>\$ 620,599</u>

**7. Employee Benefit Plans**

Pension Plans

The Utah Transit Authority Employees Retirement Plan is a single-employer defined benefit plan that covers all eligible employees and provides retirement benefits to plan members and their beneficiaries. The Plan also provides disability benefits to plan members. The plan's provisions were adopted by a resolution of the Authority's Board of Trustees which appoints those who serve as trustees of the plan. Any amendments to the plan are adopted by a resolution of the Authority's Board of Trustees.

The plan issued a publicly available financial report that includes financial statements and required supplementary information for that plan. This report may be obtained by writing:

Comptroller's Office  
Utah Transit Authority  
P.O. Box 30810  
Salt Lake city, UT 84130



**Funding policy and annual pension cost:**

Contributions to the plan are recommended by an annual actuary report and are approved by the Authority's Board of Trustees. The Authority's annual cost for the current year and related information for the plan is as follows:

**Contribution Rates:**

Plan members	None
Authority	Annually determined by actuary

Contributions made	\$7,513,719
Annual required contributions	\$7,513,719
Interest on net pension obligations	(\$38,019)
Adjustment to annual required contributions	\$33,056
Annual pension cost	\$7,508,756
Actuarial valuation date	1/1/2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll 25 year open
Remaining amortization period	25 years
Asset valuation method	Five-Year Smoothing
<b>Actuarial Assumptions</b>	
Investment rate of return	7.00%
Projected salary increase	3.75%
Inflation rate assumption	3.00%

				Increase (Decrease) Net Pension Obligation	Balance Net Pension Obligation
	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed		
EMPLOYEE	12/31/2006	\$7,508,756	100.00%	(\$4,963)	(\$548,097)
RETIREMENT	12/31/2005	\$7,395,004	100.00%	(\$4,918)	(\$543,134)
PLAN	12/31/2004	\$7,106,994	100.00%	(\$4,874)	(\$538,216)

***Schedules of funding progress:***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Excess of Assets over AAL (a-b)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a-b)/c)
1/1/06	\$78,264,808	\$129,344,606	(\$51,079,798)	60.51%	\$69,407,845	(73.59%)
1/1/05	\$72,141,837	\$121,287,462	(\$49,145,625)	59.48%	\$68,435,204	(71.81%)
1/1/04	\$64,507,638	\$110,997,337	(\$46,489,699)	58.12%	\$66,953,289	(69.44)%

**B) Deferred Compensation Plan**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As part of its fiduciary role, the Authority has an obligation of due care in selecting the third party administrators. In the opinion of management, the Authority has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan. The deferred compensation assets are held by third party plan administrators and are generally invested in money market funds, stock or bond mutual funds, or guarantee funds as selected by the employee.

**8. Long Term Debt**

Long-term debt for the years ended December 2006 and 2005 was as follows:

Long-term debt for the years ended December 2006 and 2005 was as follows:

	Beginning Balance 12/31/2005	Additions	Reductions	Ending Balance 12/31/2006	Amount Due within One Year
<b>Bonds:</b>					
1997 revenue bond	\$ 1,825,000	\$ -	\$ (890,000)	\$ 935,000	\$ 935,000
2002A revenue bond	171,450,000	-	(148,850,000)	22,600,000	3,350,000
2002B revenue bond	50,000,000	-	(50,000,000)	-	-
2005A revenue bond	20,630,000	-	-	20,630,000	-
2005B revenue bond	175,000,000	-	-	175,000,000	1,850,000
2006A revenue bond	-	87,500,000	-	87,500,000	-
2006B revenue bond	-	87,500,000	-	87,500,000	-
2006C revenue bond	-	134,650,000	-	134,650,000	-
	<u>418,905,000</u>	<u>309,650,000</u>	<u>(199,740,000)</u>	<u>528,815,000</u>	<u>6,135,000</u>
Unamortized premium 2002A bond	3,618,940	-	(2,934,852)	684,088	-
Unamortized premium 2005A bond	1,848,995	-	(180,340)	1,668,655	-
Unamortized premium 2005B bond	1,216,784	-	(150,637)	1,066,147	-
Unamortized premium 2006C bond	-	18,571,809	(202,083)	18,369,726	-
Unamortized refunding 2005A bond	(951,896)	-	118,640	(833,256)	-
Unamortized refunding 2006C bond	-	(3,818,956)	44,904	(3,774,052)	-
Unamortized expenses 2005A bond	(324,713)	-	40,470	(284,243)	-
Unamortized expenses 2006C bond	-	(1,141,755)	12,220	(1,129,535)	-
<b>Total bonds</b>	<u>\$ 424,313,110</u>	<u>\$ 323,261,098</u>	<u>\$ (202,991,678)</u>	<u>\$ 544,582,530</u>	<u>\$ 6,135,000</u>

	Beginning Balance 12/31/2004	Additions	Reductions	Ending Balance 12/31/2005	Amount Due within One Year
<b>Bonds:</b>					
1997 revenue bond	\$ 23,985,000	\$ -	\$ (22,160,000)	\$ 1,825,000	\$ 890,000
2002A revenue bond	174,500,000	-	(3,050,000)	171,450,000	3,200,000
2002B revenue bond	50,000,000	-	-	50,000,000	-
2005A revenue bond	-	20,630,000	-	20,630,000	-
2005B revenue bond	-	175,000,000	-	175,000,000	-
	<u>248,485,000</u>	<u>195,630,000</u>	<u>(25,210,000)</u>	<u>418,905,000</u>	<u>4,090,000</u>
Unamortized premium 2002A bond	4,211,563	-	(592,623)	3,618,940	-
Unamortized premium 2005A bond	-	1,919,178	(70,183)	1,848,995	-
Unamortized premium 2005B bond	-	1,256,674	(39,890)	1,216,784	-
Unamortized refunding 2005A bond	-	(996,386)	44,490	(951,896)	-
Unamortized expenses 2005A bond	-	(339,890)	15,177	(324,713)	-
<b>Total bonds</b>	<u>\$ 252,696,563</u>	<u>\$ 197,469,576</u>	<u>\$ (25,853,029)</u>	<u>\$ 424,313,110</u>	<u>\$ 4,090,000</u>

**Sales Tax and Transportation Revenue Bonds.** The Authority issued bonds where the Authority pledges revenues which includes Sales and Use Tax Revenues currently collected by the Authority, plus interest earned by and profits derived from the sales of investments in certain funds and accounts created by the related Subordinate Indenture or Senior Indenture; plus all other Revenues (if any) after payment of operation and maintenance expenses and moneys on deposit in the funds and accounts established under the Indenture. Revenue bonds outstanding at year-end are as follows:

Series 1997A	Interest Rates	Original Amount
Purpose - Acquisition, construction, and equipping of a fixed guideway public transit system and related improvements.	4.00 - 5.40%	\$27,740,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2007	<u>935,000</u>	<u>44,412</u>	<u>979,412</u>

In 2005, the Authority's Series 2005A bonds were issued to refund in advance of their maturity \$21,310,000 of the outstanding Series 1997A bonds which mature on December 15 of the years 2008 and 2009; December 15, 2012, December 15, 2016; and December 15, 2022.

Average Annual Cash Flow Savings	\$	133,202
Gross Debt Service Savings	\$	1,470,883
Net Present Value Savings	\$	1,367,537
Savings as a percent of bonds refunded		6.42%

Proceeds of the Series 2005A bonds were deposited in an irrevocable trust escrow fund consisting of U.S. Treasury Certificates of Indebtedness. The investments held in the escrow fund will bear interest and mature in amounts sufficient to pay the interest falling due on the 1997A Refunded Bonds through December 2007 and the redemption price of the 1997A Refunded Bonds, as such become due and payable on December 15, 2007.

The debt service of the 1997A Refunded Bonds are as follows:

	Principal	Interest	Premium	Total
2007	<u>\$ 21,310,000</u>	<u>\$ 1,123,591</u>	<u>\$ 213,100</u>	<u>\$ 22,646,691</u>

Series 2002A

Purpose - Acquisition of approximately 175 miles of railroad rights-of-way and other transit related projects

Interest Rates

4.00 - 5.00%

Original

Amount

\$180,200,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2007	3,350,000	942,750	4,292,750
2008	3,500,000	802,125	4,302,125
2009	3,650,000	654,000	4,304,000
2010	3,850,000	466,500	4,316,500
2011	4,025,000	269,625	4,294,625
2012	4,225,000	84,500	4,309,500
Total	<u>\$ 22,600,000</u>	<u>\$ 3,219,500</u>	<u>\$ 25,819,500</u>

In 2006, the Authority Series 2006C bonds were issued to refund in advance of their maturity \$145,650,000 of the outstanding Series 2002A bonds which mature June 15, 2013 through June 15, 2032.

Average Annual Cash Flow Savings	\$ 518,839
Gross Debt Service Savings	\$ 13,489,802
Net Present Value Savings	\$ 7,539,744
Savings as a percent of bonds refunded	5.177%

Proceeds of the Series 2006C bonds were deposited in an irrevocable trust escrow fund consisting of U.T. Treasury Certificates of Indebtedness. The investments held in the escrow fund will bear interest and mature in amounts sufficient to pay the interest falling due on the 2002A Refunded Bonds through December 15, 2012 and the redemption price of the 2002A Refunded Bonds as such become due and payable on December 15, 2012.

The debt service of the 2002A Refunded Bonds are as follows:

2007	\$ -	\$ 7,184,906	\$ 7,184,906
2008	-	7,184,906	7,184,906
2009	-	7,184,906	7,184,906
2010	-	7,184,906	7,184,906
2011	-	7,184,906	7,184,906
2012	145,650,000	7,184,906	152,834,906
	<u>\$ 145,650,000</u>	<u>\$ 43,109,436</u>	<u>\$ 188,759,436</u>

## Series 2005A

## Interest Rates

Original  
Amount

Purpose - Refunding of 1997 Series Bond

3.25 - 5.0%

\$20,630,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2007	\$ -	\$ 1,016,625	\$ 1,016,625
2008	970,000	1,000,488	1,970,488
2009	1,015,000	958,975	1,973,975
2010	1,060,000	913,213	1,973,213
2011	1,100,000	865,325	1,965,325
2012-2016	6,380,000	3,472,281	9,852,281
2017-2021	8,190,000	1,622,765	9,812,765
2022	1,915,000	50,269	1,965,269
Total	<u>\$ 20,630,000</u>	<u>\$ 9,899,941</u>	<u>\$ 30,529,941</u>

## Series 2005B

## Interest Rates

Original  
Amount

Purpose - Construction of Commuter Rail North

3.5 - 5.0%

\$175,000,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2007	\$ 1,850,000	\$ 7,807,688	\$ 9,657,688
2008	1,925,000	7,741,625	9,666,625
2009	2,000,000	7,672,938	9,672,938
2010	2,050,000	7,602,063	9,652,063
2011	2,175,000	7,528,125	9,703,125
2012-2016	12,075,000	36,270,688	48,345,688
2017-2021	15,200,000	33,208,625	48,408,625
2022-2026	27,600,000	28,662,656	56,262,656
2027-2031	36,950,000	21,304,188	58,254,188
2032-2035	73,175,000	7,895,251	81,070,251
Total	<u>\$ 175,000,000</u>	<u>\$ 165,693,847</u>	<u>\$ 340,693,847</u>

Series 2006A

Purpose - Construction costs of a commuter rail line from Salt Lake City to Pleasant View City; construction of certain commuter rail improvements; purchase of rolling stock; and other improvements to the system.

Interest Rates

Original  
Amount

Daily Variable

\$87,500,000

Ranged between  
2.95% - 3.95%

Revenue bond debt service requirements to maturity, including interest, are as follows  
Using the interest rate as of 12/31/2006 of 3.95%

Year Ending December 31	Principal	Interest	Total
2007	\$ -	\$ 3,456,250	\$ 3,456,250
2008	-	3,456,250	3,456,250
2009	-	3,456,250	3,456,250
2010	-	3,456,250	3,456,250
2011	-	3,456,250	3,456,250
2010-2014	-	17,281,250	17,281,250
2015-2019	-	17,281,250	17,281,250
2020-2024	-	17,281,250	17,281,250
2025-2029	-	17,281,250	17,281,250
2030-2032	<u>87,500,000</u>	<u>17,281,250</u>	<u>104,781,250</u>
Total	<u>\$ 87,500,000</u>	<u>\$ 103,687,500</u>	<u>\$ 191,187,500</u>

Series 2006B

Purpose - Construction costs of a commuter rail line from Salt Lake City to Pleasant View City; construction of certain commuter rail improvements; purchase of rolling stock; and other improvements to the system.

Interest Rates

Original  
Amount

Daily Variable

\$87,500,000

Ranged between  
3.05% - 3.88%

Revenue bond debt service requirements to maturity, including interest, are as follows  
Using the interest rate as of 12/31/2006 of 3.88%

Year Ending December 31	Principal	Interest	Total
2007	\$ -	\$ 3,395,000	\$ 3,395,000
2008	-	3,395,000	3,395,000
2009	-	3,395,000	3,395,000
2010	-	3,395,000	3,395,000
2011	-	3,395,000	3,395,000
2010-2014	-	16,975,000	16,975,000
2015-2019	-	16,975,000	16,975,000
2020-2024	-	16,975,000	16,975,000
2025-2029	-	16,975,000	16,975,000
2030-2032	<u>87,500,000</u>	<u>16,975,000</u>	<u>104,475,000</u>
Total	<u>\$ 87,500,000</u>	<u>\$ 101,850,000</u>	<u>\$ 189,350,000</u>



## Series 2006C

Interest  
RatesOriginal  
Amount

Purpose - Refunding of 2002A Series Bond

5.0 - 5.25%

\$134,650,000

Revenue bond debt service requirements to maturity, including interest, are as follows;

Year Ending December 31	Principal	Interest	Total
2007	\$ -	\$ 8,034,508	\$ 8,034,508
2008	-	7,037,525	7,037,525
2009	-	7,037,525	7,037,525
2010	-	7,037,525	7,037,525
2011	-	7,037,525	7,037,525
2012-2016	16,980,000	33,526,100	50,506,100
2017-2021	26,845,000	27,511,969	54,356,969
2022-2026	34,900,000	19,452,563	54,352,563
2027-2031	45,345,000	8,978,158	54,323,158
2032	10,580,000	277,725	10,857,725
Total	<u>\$ 134,650,000</u>	<u>\$ 125,931,123</u>	<u>\$ 260,581,123</u>

**9. Commitments and Contingencies**

The Authority is a defendant in various matters of litigation and has other claims pending as a result of activities in the ordinary course of business. Management and legal counsel believe that by reason of meritorious defense, by insurance coverage or statutory limitations, these contingencies will not result in a significant liability to the Authority in excess of the amounts provided as accrued self-insurance liability in the accompanying financial statements.

The Authority also has commitments during 2007 of approximately \$25 million for rail locomotives, cab-cars and passenger cars; approximately \$110 million for construction of the commuter rail; approximately \$13 million for 20 buses and \$1.5 million for 27 paratransit vans.

**10. Subsequent Events**

In early 2007 the Authority made commitments to purchase 10 BRT buses, 12 commuter buses and 9 canyon service buses for approximately \$13 million plus 136 vans for \$3.5 million.

In 2007 the Utah State Legislature removed the sales tax on food effective January 1, 2008 and adjusted the transit sales tax rate up to mitigate the impact of the loss of transit sales tax funds due to the removal of the sales tax on food. The transit sales tax rates effective January 1, 2008 will be as follows: (see note 2F for current rate)

Salt Lake County	0.68375%
Davis & Weber Counties	0.55%
Utah County	0.526%
Tooele and Box Elder Counties	0.30%

# UTAH TRANSIT AUTHORITY

## SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-Through Grantor/ Program Title		Federal CFDA Number	Grant Number	Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
Federal Transit Administration Direct Programs:				
FTA	Federal Transit — Capital Investment Grant	20.500	UT-03-0028	\$ 788,711
FTA	Federal Transit — Capital Investment Grant	20.500	UT-03-0043	201,224
FTA	Federal Transit — Capital Investment Grant	20.500	UT-03-0047	28,979,155
FTA	Federal Transit — Capital Investment Grant	20.500	UT-04-0001	6,438,361
FTA	Federal Transit — Capital Investment Grant	20.500	UT-04-0002	1,539,110
FTA	Federal Transit — Capital Investment Grant	20.500	UT-04-0003	83,764
				<u>38,030,325</u>
FTA	Federal Transit — Formula Grant	20.507	UT-90-X038	42,347
FTA	Federal Transit — Formula Grant	20.507	UT-90-X040	436,453
FTA	Federal Transit — Formula Grant	20.507	UT-90-X042	1,123,735
FTA	Federal Transit — Formula Grant	20.507	UT-90-X045	712,545
FTA	Federal Transit — Formula Grant	20.507	UT-90-X050	28,677,836
				<u>30,992,916</u>
FTA	ITS Planning	20.514	UT-26.7004	209,610
Total U.S. Department of Transportation				<u>69,232,851</u>
<b>U.S. DEPARTMENT OF ENERGY</b>				
Pass-Through — Utah Department of Natural Resources:				
	State Energy program	81.041	06-0659	25,000
Total U.S. Department of Energy				<u>25,000</u>
TOTAL FEDERAL AWARDS EXPENDED				<u>\$69,257,851</u>

See notes to supplementary schedule of expenditures of federal awards.

## UTAH TRANSIT AUTHORITY

### NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006

---

***Basis of Accounting*** — The supplementary schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Federal awards provided to subrecipients are treated as an expenditure when paid to the subrecipient.

***Reporting Entity*** — The Authority administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the Authority.

***Pass-Through Awards*** — The Authority receives certain expenditures of federal awards from pass-through awards of various state and other governmental agencies. The total amount of such pass-through awards is included in the supplementary schedule of expenditures of federal awards.



Deloitte & Touche LLP  
Suite 1900  
299 South Main Street  
Salt Lake City, UT 84111-1919  
USA

Tel: +1 801 328 4706  
Fax: +1 801 366 7900  
[www.deloitte.com](http://www.deloitte.com)

**INDEPENDENT AUDITORS' REPORT OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Board of Trustees of  
Utah Transit Authority:

We have audited the financial statements of Utah Transit Authority (the "Authority") as of and for the year ended December 31, 2006, and have issued our report thereon dated May 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated May 2, 2007.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

May 10, 2007



Deloitte & Touche LLP  
Suite 1900  
299 South Main Street  
Salt Lake City, UT 84111-1919  
USA

Tel: +1 801 328 4706  
Fax: +1 801 366 7900  
www.deloitte.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees of  
Utah Transit Authority:

**Compliance**

We have audited the compliance of Utah Transit Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006.

**Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

May 10, 2007



# UTAH TRANSIT AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2006

---

### I. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. No material weaknesses in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the basic financial statements was disclosed by the audit.
4. No material weaknesses in internal control over compliance with requirements applicable to major award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Authority's major program cluster identified for the year ended December 31, 2006:

#### Federal Transit Cluster

CFDA #20.500  
CFDA #20.507

Federal Transit — Capital Investment Grant  
Federal Transit — Formula Grant

8. A threshold of \$2,077,736 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did qualify as a low-risk auditee under Section .530 of OMB Circular A-133.

### II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

None

### III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF FEDERAL AWARDS

None



Deloitte & Touche LLP  
Suite 1900  
299 South Main Street  
Salt Lake City, UT 84111-1919  
USA

Tel: +1 801 328 4706  
Fax: +1 801 366 7900  
[www.deloitte.com](http://www.deloitte.com)

May 2, 2007

Board of Trustees of  
Utah Transit Authority

Dear Members of the Board of Trustees:

In planning and performing our audit of the financial statements of Utah Transit Authority (the "Authority") as of and for the year ended December 31, 2006 (on which we have issued our report dated May 2, 2007), in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, in connection with our audit, we identified, and included in the attached Appendix, control deficiencies related to the Authority's internal control over financial reporting as of December 31, 2006, that we wish to bring to your attention.

The definitions of a control deficiency, a significant deficiency, and a material weakness are also set forth in the attached Appendix.

This report is intended solely for the information and use of management, the Audit Committee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

**SECTION I — CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving the Authority's internal control over financial reporting as of December 31, 2006, that we wish to bring to your attention:

**Claim Zone System Controls**

**Observation** — The report from the Claim Zone system (the insurance claims tracking system used by the Risk Management department) used to establish the reserve for all open claims as of December 31, 2006, was incomplete and caused the self insurance accrual to be understated. This understatement did not become evident until reviewing general counsel's response to our audit inquiry letter regarding open, pending, and threatened litigation and claims. The amounts reported by general counsel that should have been accrued by the Authority were not consistent with the actual amounts recorded by finance. Management adjusted the accrual for this misstatement so it correctly reflects the open claims.

**Recommendation** — The Claim Zone report should be reviewed for reasonableness and compared to open claims to determine that all open claims are included in the report. Communication between general counsel, risk management personnel, and the accounting functions should be increased so as to ensure appropriate reserves are recorded.

**Segregation-of-Duty Controls within JDE One World**

**Observation** — Security in JDE OneWorld is not sufficiently restricted. Nine users are assigned the ACCOUNTING responsibility within JD Edwards. The ACCOUNTING responsibilities have powerful capabilities assigned in each of the general ledger, accounts payable, and accounts receivable modules. This responsibility has access to both enter and approve transactions in the general ledger, which could allow inappropriate transactions to be concealed. The responsibility also has access to both enter accounts payable disbursement transactions and set up vendor accounts, which could allow an opportunity to make fraudulent payments to false vendors.

**Recommendation** — Management should reconfigure access privileges within JDE to segregate responsibilities and access capabilities. This analysis should be documented by developing a segregation-of-duty matrix, in which potential conflicting privileges are identified. As JDE profiles are designed and assigned to users, management should ensure that the requirements from the segregation-of-duty matrix are not violated. Management should also ensure that "Super User" capabilities are assigned only when consistent with job roles, and transactions from these accounts are independently monitored.

**Administrative Account Access**

**Observation** — Through examination of a security assessment conducted by a third party at the request of the Authority management in 2006, we noted that passwords were not required for local Administrative accounts on several servers supporting key financial applications. We noted as of the date of our examination this issue had been resolved.

Through our testing procedures we identified multiple administrative accounts on both JDE and Active Directory for which the password had not been changed within the past twelve months.

**Recommendation** — Management should conduct a quarterly review of all accounts with administrative privileges. This review should ensure that passwords are changed on a quarterly basis, and that these passwords contain elements which would constitute a strong password. This review should be documented.

### **Terminated Employees with Active User Accounts**

**Observation** — We identified six active JDE accounts and seven Active Directory accounts belonging to terminated employees. We noted a periodic review of active user accounts to identify and disable inappropriate user accounts is not performed.

**Recommendation** — Periodic reviews of user accounts should be performed to identify inappropriate or terminated user accounts in JDE application by reconciling current employees on the master payroll file to active JDE accounts. This review should be documented and retained for a minimum of one year.

## **SECTION II — CURRENT STATUS OF PRIOR YEAR COMMENTS**

### **JD Edwards Access Request**

**Observation** — Requests for new user accounts and changes to existing user accounts within JD Edwards are submitted through a freeform e-mail. Requests for new accounts typically specify an existing user account to use as a model for the new account.

**Current Status** — The Authority has not implemented this recommendation; however, sample testing was conducted without exception regarding proper approval.

### **NTD Purchased Transportation Data and Review**

**Observation** — The FTA guidelines previously required that data which uses sampling be reviewed or audited for accuracy. However, if 100% of the data is known and no sampling is used, this is not required. The purchased transportation has 100% of the data known. Each month the totals are received from the purchased transportation services (PT) and then reviewed by accounting. The Office of Performance Operations should also review this like the other programs.

**Current Status** — The Authority has not yet implemented this because of a change in personnel. We understand the Authority is in the process of training the new data supervisor to perform this review.

### **Recording Capabilities of Money Counts**

**Observation** — The computer, which shows the broadcast of the cash counts in the count room, did not record the counts.

**Current Status** — We understand the Authority has purchased new equipment to address this matter and is in the process of installing the equipment.

### **Payroll Controls — Inclusion of Notification E-mail in Personnel Files**

**Observation** — According to the Authority's human resources policy, an e-mail is created to notify all associated personnel (i.e., union representatives, the civil rights manager, and payroll) of a new hire or terminating employee. We noted in our testing that this e-mail was not always included within the personnel file. We recommend that a process be put in place to ensure that this e-mail is included.

**Current Status** — During our 2006 testing, we noted the e-mails are not included in the personnel files. We recommended this be put into practice to provide evidence that the union representatives, civil rights manager, or payroll are notified of new hires and terminations. We make the same recommendation again this year.

### **SECTION III — DEFINITIONS**

The definitions of a control deficiency, a significant deficiency, and a material weakness that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

\* \* \* \* \*

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control Over Financial Reporting**

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control Over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

\* \* \* \* \*

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE GUIDELINES

The Board of Trustees of  
Utah Transit Authority:

We have audited the financial statements of Utah Transit Authority (the "Authority") for the year ended December 31, 2006, and have issued our report thereon dated May 10, 2007. Our audit included test work on the Authority's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Issues

The Authority did not receive any major or nonmajor state grants during the year ended December 31, 2006.

The management of the Authority is responsible for the Authority's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

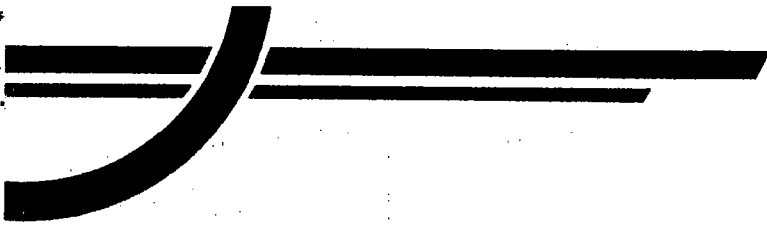
The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Authority complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended for the information and use of the Board of Trustees, operations committee, management, and the Utah State Auditor's Office and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

May 10, 2007



May 11, 2007

Board of Trustees of Utah Transit Authority

Dear Members of the Board of Trustees:

Management responses to Deloitte & Touche's report of control deficiencies for the 2006 audit are summarized below.

### **Claim Zone System Controls**

The Claim Zone system was a new software system that was installed in 2006 and the reporting capabilities were still being implemented. The incomplete reporting problems have been corrected and the risk, legal and accounting departments will continue to communicate regarding outstanding claims and other issues.

### **Segregation-of-Duty Controls within JD Edwards (JDE) One World**

All transactions in the general ledger have always gone through an approval process. The approval process is performed outside the JDE system and entries are audited to insure that proper approval is being done.

Management will review the capabilities of all the users in these areas and determine if any changes are necessary.

### **Administrative Account Access**

The Technology Office will implement quarterly audits of administrative accounts and change passwords on a regular basis.

### **Terminated Employees with Active User Accounts**

Human Resources will enter a termination date into JDE upon notification. Human Resources will then send an email notification to appropriate email distribution list, which includes the IT Helpdesk. The IT Helpdesk will, in turn, disable both JDE and Active Directory accounts of the terminated employee upon receipt.



### **JDE Access Request**

The Information Technology Department has implemented a Change Request Form for tracking changes to Objects (reports and programs) within the JDE system. The current process of JDE Access Authorization to JDE via email has worked well. It documents and records the authorizing entity requesting the change, the justification for the action and the date and time the change was requested. This document is filed electronically and is available for printing, tracking, auditing and trend analysis if needed. The Information Technology Department will continue the use of electronic means instead of paper controls throughout the departmental processes.

### **NTD Purchased Transportation Data & Review**

The Performance Information Team which is a department within the Operations Performance Office will review the monthly NTD purchase transportation information for completeness and accuracy in addition to the review being done by accounting.

### **Recording Capabilities of Money Room**

The equipment to monitor and record the money room activity is now in place and functioning.

### **Payroll Controls-Inclusion of notification E-mail in Personnel Files**

We will immediately begin printing notification emails for new hires and terminations and place them in the personnel file. We will also update our HR SOP320 to define this specific task.